Burlington Retirement Committee

Meeting of the Committee Members

Agenda

September 2, 2014 5:00pm – 7:00pm

1st Floor Conference Room, Burlington Electric Department
585 Pine St., Burlington Vermont 05401

Meeting began at 5:15pm

Present: Councilor Mason, Councilor Bushor, Jim Strouse, Councilor Knodell, Bill Rasch, John Federico, Mike Flora, Jeffrey Wimette, Joe Keenan, Eileen Blackwood, Brian Lowe, Susan Leonard (by phone), Mayor Weinberger, Councilor Paul

Absent: Bob Rusten, Bob Hooper

5:00pm – 5:05 pm **Approve Agenda**

Councilor Bushor moved to approve with amendment, Councilor Mason seconded.
Agenda amended to discuss the next meeting time at the end of the meeting.

Review and Approval of August 19, 2014 meeting minutes

Councilor Bushor moved to approve with an amendment that Councilor Paul was incorrectly marked as absent in the minutes, Councilor Mason seconded. Amended and approved with Councilor Knodell abstaining because she was not at the last meeting.

5:05pm – 5:10pm **Public Comment**

Ron Ruloff : Changes must happen
Gene Bergman: Unfair to penalize those who have worked in the City for a long time under a contract that was known and agreed to at that time. Defend what you have contractually granted.

5:10pm – 6:40pm **Review of Options Presented by Keith Brainard Following the Committee's August 19 Discussion**
All, with Keith Brainard

Keith Brainard (KB) provided an overview of his written materials. The options he outlines, including a temporary suspension of the COLA, would reduce the pension plan's unfunded liability and improve the plan's funding level. Also, by incorporating self-correcting mechanisms, such as a flexible COLA and capacity for increased employee contributions, the plan design would reduce the volatility of the funding level, and guard against sharp declines in the funding level.
He asks the group to focus on the concepts he is proposing and not the details.

One idea is to suspend COLAs until either (i) certain thresholds are met or (ii) for a period of time (such as three years). Currently, the plan is paying for more inflation than the plan is paying in their benefit -

Eileen Blackwood, moderating: Can you explain that more?

KB: The assumption made by the actuary is a 3 percent COLA. But, the actual COLA is tied to the rate of inflation – so, when inflation is 1 percent, the COLA is 1 percent. However, when the actuary conducts the analysis, he or she assumes 3 percent.

John Federico: Two actuarial assumptions: Assumption for COLA for retirees and for current employees? When inflation is less than 3 percent, shouldn't that help the City?

KB: Yes, the inflation adjustment applies both to salary component and the COLA

Jim Strouse: We are paying for a higher than actual inflation rate, but over the long-term that would be realized as an actuarial game.

KB: Agreed, but over the long term the City could generate savings – the City is paying 3 percent even though employees are only realizing a 1 percent COLA.

John Federico: Are you aware that in making the suggestion that a COLA change, different classes of employees would be impacted differently – some employees take a no COLA change, some take a half COLA, and others take a full COLA. Those classes would be impacted differently.

KB: I am aware of that, and it connects to the next point I would make: the City could plan to restore all lost COLAs if and when the plan reaches a certain threshold.

KB, continuing on: I have provided two proposals that focus on new plan designs for new employees, and could potentially apply to active employees. I am not an actuary, so I am giving you ballpark estimates of what the impact would be.

Option one, a DB plan for Class A:

- Normal (unreduced) retirement eligibility at age of 55 or age 52 with at least 25 years of service
- A benefit multiplier of 2.5 percent per year of service
- Employee contribution rate of 10 percent
- A cost-of-living adjustment that is based on the rate of inflation and that is tied to the plan's funding level. For example, no COLA would be paid if the plan is funded below 70 percent; a COLA of up to two percent would be paid if the plan is funded more than 70 percent but less than 80 percent; up to three percent if the plan is funded above 80 percent and less than 90 percent; and up to four percent if the plan is funded above 90 percent.
- Normal cost estimate: 8 percent

Option two, a hybrid plan for Class A:

- A minimum normal retirement age of 55 or age 52 with at least 25 years of service
- A benefit multiplier of 1.75 percent per year of service
- An employee contribution rate of 8 percent.
- A defined contribution plan into which the employer contributes five percent of pay into an employee's individual account.
- A cost-of-living adjustment that is based on the rate of inflation and that is tied to the plan's funding level. For example, no COLA would be paid if the plan is funded below 70 percent; a COLA of up to two percent would be paid if the plan is funded more than 70 percent but less than 80 percent; up to three percent if the plan is funded above 80 percent and less than 90 percent; and up to four percent if the plan is funded above 90 percent.
- No COLA payable until age 55

- Normal cost estimate: 8 percent

The COLA I am suggesting for both Class A designs is identical at 4 percent – this is because Class A does not accumulate Social Security benefits (Class B does). The no COLA payable till age 55 removes an incentive to retire early, and provides an incentive to work longer.

Turning now to Class B:

Class B option one, a DB plan:

- Normal (unreduced) retirement eligibility at age of 65 with five years of service or age 62 with at least 20 years of service
- A benefit multiplier of 1.5 percent per year of service
- Employee contribution rate of 4 percent *(potentially phased in over a couple years)*
- COLA based on inflation and tied to plan funding level: up to 3% when funding level is >90%; up to 2% when funding level is 80% to 90%; up to 1% when funding level is 70% to 80%; zero when funding level is <70%
- No COLA payable until age 65
- Normal cost estimate: 4 percent

Class B, option two, a hybrid plan:

- A minimum normal retirement age of 65 with five years of service or age 62 with at least 20 years of service
- A benefit multiplier of 1.0 percent per year of service
- An employee contribution rate of 3 percent
- A defined contribution plan into which the employer and employee each contribute three percent of pay, and the employer matches an additional two percent of pay by the employee, for a possible total contribution to the employee's individual account of 10 percent.
- COLA based on inflation and tied to plan funding level: up to 3% when funding level is >90%; up to 2% when funding level is 80% to 90%; up to 1% when funding level is 70% to 80%; zero when funding level is <70%
- No COLA payable until age 65
  Normal cost estimate: 5 percent

KB, continuing: In my view, City should not be the lone guard to encourage employees to save for retirement – a voluntary, employer match has had positive outcomes in other municipalities around the country –

Jeffrey Wimette: Keith, a question – did you calculate out for a number of years what the benefit would be to employees to understand the value of the benefit between the two different plan types?

KB: Not for this exercise, but I have a paper on the topic I will share.

Eileen Blackwood: Within the DB and hybrid, did you intend for these options to be similar?

KB: The total benefit for both should be roughly similar at the outset.

Mike Flora: Is there a cap on the hybrid model?

KB: There is no cap on what an employee could accumulate on either the DB or DC side. The accrual rate drops of precipitously at a certain point.

Joe Keenan: Accrual rate above 25 years of service drops to .5. After 35 years of service, no accrual and no contribution.

Councilor Knodell: To reach the ten percent, how much would an employee need to contribute?

KB: Five percent.

KB, continuing: I was asked to look at triggers for automatic adjustments following the group's discussion. I am suggesting that the committee incorporate a cost-of-living adjustment policy, at least for new hires, and potentially applied to all plan participants, that ties the provision of COLAs to the plan's funding level. Because the COLA is a fairly expensive plan provision, implementing a flexible COLA will create a self-adjusting mechanism that will minimize the effects on plan costs of a declining funding condition.

John Federico: Any calculations of what would have happened if COLAs had been suspended the past 2-3 years?

KB: Not completed for this meeting. In addition to the flexible COLA policy, the committee may wish to also consider increasing employee contribution rates when the plan's funding level drops below designated thresholds. One suggested example might be an increase in worker contributions of one percent when the funding level drops below 80 percent, and by two percent when the plan's funding level drops below 70 percent.

Between lower overall benefit level, flexible COLA, flexible employee contribution levels, there would be a buffer to increased City liability.

KB: The City could apply parts of the proposed plan designs to current plan participants. Limiting the proposed plan design to new hires only would leave the City's UAL intact, resulting in lower retirement plan costs over a longer time. (*Paraphrasing Keith's comments from his written materials: Absent higher expected investment returns or other changes to the plan's actuarial assumptions, and assuming there is no new revenue source available to reduce the UAL, the only way to reduce the UAL more quickly is to reduce benefit levels for existing plan participants, either retired, active, or both)*.

Councilor Bushor: How to look at UAL and not disrupt employee retirement packages? I wanted to look only at those who have not vested. Do you feel that did not have added value?

KB: I would not say that – that would have value.

Councilor Bushor: I'd like to understand that more. Balancing the taxpayer and the employee, and trying to determine what would be potentially palatable to the employee. Is there a way to get more information?

KB: I could do some work on this to the extent I am able – I am not an actuary. Anecdotally, a large portion of the UAL is associated with service that has already been accrued. The further you go from those eligible for retirement, the smaller the savings will be. To limit to those not yet vested, for example, you would be working with a smaller pool. I could work something up to the best of my ability.

Councilor Bushor: If there is interest from others, I would like to see that.

KB, continuing: To consider this with active members, there are a lot of details about to who and in what way. The details depend on whether DB or hybrid, what group of active employees, etc. I'm happy to elaborate more on any component.

Councilor Knodell: One question – you have the flexible COLA, but not the flexible employee contribution. Could that be a variant?

KB: Yes.

Councilor Knodell: You could combine a flexible employer contribution rate with a flexible employee contribution rate – this, conceptually, could be a way to share cost between the City and employees.

KB: Yes, I agree with that. In CA, for example, there are examples of employees and employers sharing the normal cost 50-50, so if there are shortfalls on actuarial assumptions the risk is borne equally.

John Federico: Who in CA?

KB: Most systems. This is a revision under PEPRA.

Mayor Weinberger: Is your assumption that if one of these plans were adopted, there would be some sharing of normal cost?

KB: Yes, I have tried to make the employee contribution roughly proportionate to the normal cost. I have not suggested that the employee contribution rate be tied to the normal cost – rather, roughly proportionate to what the normal cost would be.

Councilor Mason: Triggers on the employee contribution are not listed here, though we've discussed verbally. In the hybrid proposal you put forth, there is a DC component with a 5 percent employer contribution.

KB: I had not looked at linking employee contribution triggers with the DC component of the hybrid plan.

Member of the public Jim Dunn: Current employees vs. new hires as a function of the speed at which you'd like to reduce the UAL. Is this accurate, and how dramatic is that different, particularly in the context of the City's 30-year amortization schedule?

KB: The Burlington plan is on a 30 year amortization schedule. If no changes were made to current employees that would not affect the UAL, which would slowly be amortized over the next 30 years. To the extent you begin to affect benefits to existing plan participants, you are able to proportionately increase the impact on the UAL as you move from those with one year of experience and up.

Councilor Bushor: Our UAL has continued to grow. I have difficulty saying that in 30 years we will have paid off the UAL. Can you correct this statement?

KB: Paying off the UAL in 30 years requires a number of factors – making the ARC and meeting the actuarial assumptions. To some extent, it is theoretical that you will pay it off over 30 years.

Councilor Bushor: It is troubling to me that we cannot assess with confidence that we'd pay it off in 30 years.

Councilor Knodell: We have a rolling 30 year amortization, so every year, we have a new 30 year schedule.

John Federico: That is not how I understand it – Jim Strouse?

Jim Strouse: We are always going out 30 years. If we did meet expectations for 30 years in a row, then we would have it paid off.

John Federico: That is also part of the reason BERS is looking at projected unit credit, etc.

Councilor Knodell: To get the discussion going, a point of contention here would who this applies to. Maybe for this discussion we look at these options as only applying to new hires? If that were the premise, how would people evaluate Keith's proposals? What do people think? (agreement around the table on Councilor Knodell's proposed approach)

Jim Strouse: One quick note is how this interacts with BERS separate considerations like the open group method.

KB: I'd note that the open group adjustment does not affect the size of the UAL but could provide some short term fiscal relief but has some higher long term cost.

Eileen Blackwood: Thank you – should we take Councilor Knodell up on her offer – Councilor?

Councilor Knodell: Under the premise of new employees only, I like the idea of a flexible COLA. Early retirement based on actuarial adjustment is fair – I don't think what was in the plan was fair. It is a windfall for some people, and should be adjusted. I am interested in people's thoughts on a hybrid plan, and I am glad we have taken the DC plan off the table. I will stop there and am curious to get people's reactions.

John Federico: I don't know with certainty, but I think both the Class A contracts have gone to actuarially fixed retirements.

Councilor Bushor: Is that accurate Susan?

Susan Leonard: For new employees post-2006, I believe for all that is accurate.

Eileen Blackwood: For IBEW it is not an actuarial reduction.

Susan Leonard: There is the actuarial and there is a percentage reduction for older employees.

Councilor Bushor: I am curious to hear what employees around the table think about the flexible COLA. Here, the focus is on new hires. I'd also like to hear more about Jane's flexible employer/employee contribution rate.

Councilor Knodell: The idea is that were the UAL to grow, employers would contribute more even as the COLA was reduced – the City and employees would therefore share the risk.

John Federico: Sharing risk is a great concept, but it adds to the complexity of the plan and confuses employees and retirees, and a cutback held in place till say 90 percent may be a threshold you do not get to, meaning that for folks impacted it would not be restored.

Councilor Mason: The COLA flexibility benefit is that for planning purposes you would be able to know what you would contribute on an annual basis 90 percent or 100 percent

Councilor Bushor: A three year freeze is something that's known in the future. If it puts the system in a better place, you can have retroactive benefit. I want to know what employees think – is the flexible COLA something we should focus on?

John Federico: If there is substantial cost savings in the flexible COLA, that makes sense but it would have to be vetted through an actuary. There's also a legal aspect to this that could land a change in court. Further, there are issues of creating further complexity.

Councilor Bushor: The reason I'm asking is that Keith has outlined on p. 2 examples from around the country that generated savings and reduced the UAL. This looks somewhat promising – how do the employees see that?

John Federico: These are large plans with thousands of people. I'm not sure it's comparable. The CO system for example looks like an automatic 3.5 percent COLA. Keith, is that accurate on CO?

KB: That is accurate.

Eileen Blackwood: Is it worth having the City invest in having an actuary run these numbers?

John Federico: Do you mean with new employees? What are you talking about?

Eileen Blackwood: The flexible COLA formula Keith has outlined.

John Federico: It shouldn't be too complicated, and you are not going to sell employees on eliminating COLA's completely. What we are looking at is too complex.

Jeffrey Wimette: To absorb these numbers, I'd like to see how these numbers line up with the current plan. What would my new plan look like under this different arrangement? If you reduce the UAL over time, is there the potential to use some of that savings to increase the benefit in some way over time?

KB: Yes, the City could design this any way it likes. You could reduce the benefit, and you could over time also increase the benefit. That is one objective.

Jeffrey Wimette: If you reduce the City's liability, you could concurrently extend new benefits. And that could be a way to extend better benefits when the UAL is reduced.

Mayor Weinberger: I hope that when we look at these massive numbers like $60 million, we should look at this as a shared problem. What these proposals show is a route to meet all the obligations owed to all parties. I don't know if we'll be able to offer more new benefits. I think Keith is speaking to the opportunity that in a shared risk model, when things go better than expected, that positive result is also shared.

KB: The City can design a plan however it would like. You can restore benefits that are reduced for a period of time. A cash-balance plan may be one way to do this, if investment returns exceed what is expected for example.

Councilor Mason: Turning back to the question of whether this is worth pursuing with an actuary. I believe we should. With all due respect, I do not expect the open group system will eliminate our $60 million liability. I think it is a worthwhile expenditure to have David Driscoll run these numbers and see what the impact will be.

John Federico: I want to be clear that this is one small piece. We don't need to go to David Driscoll with every potential adjustment. What do we want to do? Without fleshing out more pieces of the puzzle to hand David, I don't know what he could do.

KB: What he could provide would be as accurate as anything you get from an actuary. When you blend different components together, that is where you get the uncertainty – multiple changes having dynamic effects. If you were to say to David, keeping the plan the same, here is the change we are curious about, he should be able to handle that.

Eileen Blackwood: One exercise we did with the actuary earlier was to allow us to change variables on a spreadsheet and see the impact on the system. Is that possible here?

Keith Brainard: Yes.

Mike Flora: To John's point, I think we need to throw more at David D. We know we could save money were we to move to passive management of our investment funds, for example.

Eileen Blackwood: Other thoughts? I think what Mike is recommending is waiting to see what else BERS contributes before having Driscoll run the numbers.

Councilor Mason: Jim, could you give an update from BERS?

Jim Strouse: David is involved in our work. Our next meeting is the 18th, and then we will need to have a special meeting to flesh out the discussion we've had with David.

Councilor Mason: Is it fair to expect a report from BERS to this Committee?

Jim Strouse: I believe BERS will come to a decision, not implement it, and bring it to this Committee for feedback.

Councilor Bushor: Thinking about the impact of Keith's COLA recommendation in isolation. I'd like to know exactly what that means.

John Federico: For new employees? Or more?

Councilor Bushor: This conversation is about new employees. Obviously, in the past I have also talked about those not vested.

Councilor Knodell: Point of clarification: what do you mean with temporary suspension of the COLA, do you mean to include for current retirees?

KB: Yes – for a time period the committee decides or up to a threshold that the Committee determines.

Jeffrey Wimette: you need a number to understand what that means.

John Federico: Legal costs would offset any savings.

Councilor Knodell: There is a concept here worth considering. Not something for current retirees, but something that is shared across groups and has a clear threshold to cross, whether time or funding level.

Mayor Weinberger: John, would you grant this is a new mechanism to get us out of the box we all want to get out of (need some numbers) – that if unexpected things happen in the future, this would be a mechanism to share that burden and allow the system to self-balance in a way more consistent with other systems across the country and keep the system at a threshold like 80 percent or 90 percent? I think this has potential appeal to everyone, and it has been tried elsewhere.

John Federico: These are legislative changes, right Keith?

KB: Yes.

Mayor Weinberger: Those are state plans, here it would be the City Council.

KB: Legal rulings in these cases have generally favored the state.

Councilor Knodell: Automatic adjustment mechanism is a new feature – we as a group should recommend that, as it is a component not currently in our plan. I believe conceptually this is important, taxpayers will know the burden is shared. The political climate could get unpleasant – I am frustrated that this group is not moving more quickly toward a decision. I would like to see us as a group set an end date by which we have something, or by which we say we have nothing.

Councilor Paul: Keith has given us a great deal to think about.

Eileen Blackwood: I would propose that we set our next meeting, get the new information from BERS, and get further into the discussion that we started tonight. I recognize Councilor Knodell's frustration, but I think we have one more step – getting the BERS information – and digesting what we have discussed here tonight.

Councilor Knodell: Jim can you remind people what you are looking at?

Jim Strouse: We are looking at assumed rate of return, open group, mortality tables, passive or active investment (with VPIC) on September 18

Councilor Mason: I'd like to add to our next agenda – what is the work product we are hoping to produce and by when? We are at the hard part, and more meetings are not going to make it easier – I don't want this to slip into the end of October.

Eileen Blackwood: So next time really is the time we come with a plan – what is the best date?

Jim Strouse: Conscious of the concerns Councilor Knodell has raised, can we come to a conclusion that we would not affect retirees unless it was the last possible option. We need to prioritize what we are doing.

Joe Keenan: How would you institute a COLA freeze for retired members?

Eileen Blackwood: We have not reviewed this. Presumably it would be a City Council decision.

Mike Flora: Voicing consensus with Jim – prioritizing new employees rather than retirees makes logical sense. We need to prioritize our recommendations.

Joe Keenan: COLAs are tied to the CPI.

John Federico: I'd move that we don't talk about retirees anymore.

Eileen Blackwood: I don't know that we're at a motion stage at this late hour.

Councilor Knodell: I love the motion suggestion, and would like to hear more

Joe Keenan: No one on this Committee is a voting member.

Eileen Blackwood: Let's settle the date. On the 30th with Keith or on the 23rd without Keith?

Mayor Weinberger: I would advocate for a structured meeting on the 30th with Bob back and the information from BERS.

Eileen Blackwood: Will BERS have the material it needs from Driscoll prior to the 30th?

Jim Strouse: 50/50.

Eileen Blackwood: So Keith, can you settle on the 30th? (yes).

Meeting adjourns at 7:01pm.

Next Meeting Time: **Tuesday, September 30, 2014 (location TBD)**